



**Paving the Way Forward for Rural Finance
An International Conference on Best Practices**

Case Study

Rural Finance Expansion: Experience in Commercialization

**Reverting the Tendency in Developing Finance:
The Case of “Banrural S.A.” in Guatemala**

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I. INTRODUCTION

The history of government-owned development banks goes back many decades in most low-income countries. Many of these banks were opened to support agricultural development. In the 1950s donors such as the World Bank, the Inter-American Development Bank, and the U.S. Agency for International Development began to fund numerous agricultural credit programs, especially in Central and Latin America. Most of these efforts involved these development banks. Likewise, governments strongly supported these banks; in some cases credit became the primary policy instrument for promoting agricultural development. Numerous governments used targeted lending to achieve planned goals (Adams, 2003).

These efforts, however, drew increasing criticism during the 1970s and early 1980s. Many of the government-owned development banks had low loan-recovery rates and high operating costs. Furthermore, the bulk of their subsidized loans went to relatively wealthy individuals, and the banks were vulnerable to political intrusions in lending and loan recovery decisions (Adams, 2003; Alfaro y Olivares, 1999). These problems were often compounded by rampant inflation, interest rate controls, and macroeconomic policies that impoverished agriculture (Adams, 2003).

During the 1980s a number of countries began to place more emphasis on using market forces to guide development. This included reducing economic distortions that adversely affected agriculture and easing interest rate restrictions. With this change in overall development strategy, donor priorities shifted from the agricultural sector to poverty alleviation, employment promotion, and treating environmental problems. Because of this change and the disappointing performance of development banks, donors sharply reduced their support for agricultural credit, and increasingly switched their focus to micro-enterprise lending which was thought to be a better tool to alleviate poverty (Adams, 2003, Alfaro, 1996 and 1999).

After these changes development banks were left in an awkward position. In some cases, governments grew tired of funding these banks and decided to liquidate them. In other cases, banks were reformed. Most often, however, this resulted in substantially smaller banks that continued to perform poorly. Aside from a couple of examples in Asia, few of these development banks have been successfully transformed into efficient banks (Adams, 2003).

With this background in mind, the transformation of a traditional agricultural public development bank, the National Bank for Agricultural Development –(“Banco Nacional de Desarrollo Agrícola or BANDESA)--, in Guatemala into a profitable rural bank, the Bank for Rural Development Inc. –(Banco de Desarrollo Rural S.A. or BANRURAL S.A.), is especially noteworthy, and even possibly unique.

Therefore, the objective of this paper is to present the principal achievements of BANRURAL S.A. in terms of profitability, self-sustainability, and outreach, including the extent , depth , and quality.

II. BANRURAL S.A.

In 1998 BANRURAL S.A. was formed due to the transformation of its predecessor, BANDESA. BANDESA was a government-owned development bank founded 1970 in accordance with Law No. 99-70 of the Congress of the Republic of Guatemala. Its objective was to promote and manage the credit aid of the Guatemalan government toward the farm sector. The process of transformation of BANDESA was part of the modernization process of the State and the Guatemalan financial system.

BANRURAL S.A. initiated operations in January 1, 1998, according to Law No. 57-97 (Law of Transformation of BANDESA) approved by the Congress of the Republic of Guatemala in June 3, 1997, and published in the official newspaper of Guatemala on June 31, 1997.

According to the article No. 3 of Law No. 57-97, BANRURAL S.A. has as its main objective “to promote the economic and social development of rural areas through the stimulus and facilitation of savings, credit services, and other financial services to credit unions; non-governmental organizations (NGOs); Guatemalan autochthonous associations (Mayan, Garifunas, and small size farmers associations); micro, small, and medium size entrepreneurs; both directly or indirectly through other legally recognized institutions”. To do so, BANRURAL S.A. is authorized to carry out all the operations that laws and regulations authorize to different kinds of banks, private financial companies, general stores of deposit and banks of “segundo piso” (Article 31 of the Decree 57-97, page Not. 5). BANRURAL S.A. was incorporated as “Sociedad Anónima (S.A.)”. Consequently, BANDESA was transformed from a government-owned development bank into BANRURAL S.A., a mixed capital company (seventy percent private sector with multi-sector participation¹ and thirty percent public sector).

The capital authorized of the bank is two hundred million quetzales (Q.200,000,000), divided and represented by two million (2,000,000) of nominative shares of a nominal value of one hundred quetzales (Q.100).

According to the Strategic Plan, the vision and the mission of BANRURAL S.A. are:

Vision: To become the rural area’s banking leader in financing the country’s development, through centers of financial services, offering a set of products that satisfy the needs of its clientele; with a fair profitability, but without neglecting its social mission (BANRURAL S.A.: Plan Estratégico Plan 1998-2000, page Not. 4; BANRURAL S.A.: Plan Estratégico 2003-2007).

Mission: We are a Guatemalan banking institution, oriented to the integral rural development of the country, using multi-sector capital, with universal banking services

¹ Credit Unions; Guatemalan autochthonous organizations (Mayan, Xincas, and small size farmers legally recognized organizations); NGOs; micro, small, and medium size entrepreneurs organizations; former BANDESA workers, legally recognized women’s organizations, and the public in general.

and national coverage, preferably directed to farmers, merchants, artisans, micro, small and medium size entrepreneurs (BANRURAL: Strategic Plan 1998-2000, page Not. 4; BANRURAL S.A.: Plan Estratégico 2003-2007).

The behavior of the members of BANRURAL S.A. has been guided by a set of moral values, which are constantly reinforced. According to the statement of moral values of BANRURAL S.A., the moral values “are the set of attributes that in their application magnify the action that should observe our personal. Only in the application of these moral values in the service to others can we expect that our wealth will be perpetuated, since they do not come from outside, they flow from our interior to create a more harmonious world with others” (BANRURAL S.A. (2001): Memoria de Labores). The main moral values that guide the behavior of the leaders, managers and employers of the bank are the following: prudence, national identity, ethics, social responsibility, enthusiasm, flexibility, clientele service, confidence, solidarity, respect, and originality.

III. PERFORMANCE EVALUATION: CONCEPTUAL FRAMEWORK

Most banking institutions’ main objective is to maximize profits. Consequently, their performance is measured as function of its profitability. Thus, the return on equity (ROE) and the return on assets (ROA) are two of the most used measurement to evaluate their performance.

Contrary to most banking institutions, BANRURAL S.A., according to its vision and mission, must be profitable and fulfill a social mission. According to its vision and mission BANRURAL S.A. must generate a “fair profitability (...) without neglecting its social mission”: to promote the “integral development of the country (...) with universal banking services and national covering, preferably directed towards farmers, merchants, artisans, and small and medium size entrepreneurs” (BANRURAL: Strategic Plan 1998-2000, page Not. 4).

In this paper, the performance of BANRURAL S.A. is evaluated according to the new performance evaluation vision of Developing Financial Institutions (DFIs). Thus, the conceptual framework to be utilized to evaluate the performance of BANRURAL S.A. will be that of the “natural system model” which sees organizations as collectivies that struggle to reach specific goals and survive as social units (Scott, Richard W., 1992; Alfaro, 1996).

Consequently, the performance of BANRURAL S.A. will be measured not only as a function of its profitability (the capacity of the organization to generate an appropriate return on the shareholders investment, ROE, and on the total resources compromised in the organization, ROA), but also as a function of its self-sustainability (capacity of the organization to operate without subsidies), and outreach (capacity of the organization to provide to a large amount of poor people, including the poorest, the opportunity of having access to high quality financial services). The outreach will also be measured as a function of its extent (locations and number of persons who have access to financial

services), depth (level of poverty of the clientele), and quality of the services provided.² See Figures 1 and 2 in the appendix for these statistics.

IV. PERFORMANCE EVALUATION: RESULTS (PERIOD 1998-2001)

In the past, in low-income countries, different transformation and modernization processes of government-owned development banks have occurred. Most of them, unfortunately, have failed. As a result, there currently is a great deal of skepticism among academicians and practitioners about this kind of processes.

Contrary to these failures, the process of transformation and privatization of BANDESA into BANRURAL S.A. has been extremely successful and according to some observers, possibly even unique due to its results and the economic, social, political, and especially cultural conditions of the Guatemalan environment in which it was implemented. During its first four years of operation (1998-2001) BANRURAL S.A. performed extremely well in terms of profitability, self-sustainability, and outreach.

1. PROFITABILITY

The DFIs, especially the government-owned development banks, often register losses in their operations. These losses, in the case of the government-owned development banks, are generally covered by the governments in other words, the tax-payers. When governments get tired of covering the losses the banks finally are liquidated (Alfaro and García, 1999).

Contrary to many DFIs, BANRURAL S.A. has experienced a significant and sustainable increase in its profits. They have more than doubled profits during the last four years—from 14,488.7 thousands quetzales in 1997 (base year) to 34,481.7 thousands quetzales in 2001 (Graph 1 in the appendix).

Despite the erratic behavior of the ROE index and the decreasing tendency of the ROA index, BANRURAL S.A. has become one of the most profitable banks of the Guatemala banking system. It is, in fact, the third most profitable bank in terms of ROE with a ROE of 18.83% in 2001 (Graph 2 and 3 in the appendix). Only two private commercial banks have better ROE's than BANRURAL. Furthermore, BANRURAL S.A. has had better ROE's than several very prestigious private commercial banks in the Guatemalan banking system (Table 1 in the appendix).

² For a detailed description of this methodology see: (1) Alfaro Gramajo, Luis Noel (1996). Sustainability and Outreach of Developing Financial Institutions for Micro and Small Business: A Model Applied to Three Case Studies. Dissertation presented in partial fulfillment of the requirements for the Degree of Doctor of Philosophy in the Graduate School of the Ohio State University. (2) Alfaro Gramajo, Luis Noel (1999). Sostenibilidad y Alcance en Instituciones Financieras de Desarrollo para la Micro y Pequeña Empresa: Un Modelo Aplicado a Tres Casos de Estudio. INCAE, Centro de Políticas.

The profitability registered by BANRURAL S.A. confirms that the financial services to the poor, if they are done correctly, can be profitable; and that promoting micro, small and medium size enterprises, and rural development DFIs must be profitable.

2. SELF-SUSTAINABILITY

As opposed to other DFIs, BANRURAL S.A. from 1998-2001 has not only been a profitable banking institution but also a self-sustainable institution. It did not have any explicit subsidies: both the Index of Sustainability (I.S.) and the Index of Independence of Explicit Subsidies (IIES) have been greater than 1, which indicates that BANRURAL S.A. generates enough income to cover its costs and that it does not depend on explicit subsidies to survive.³

3. OUTREACH

Some DFIs often register very good results in terms of profitability and self-sustainability. Nevertheless, their performance may be lacking in terms of outreach. From 1998-2001 BANRURAL S.A. was profitable, self-sustainable, and very successful in achieving its social mission by obtaining very good results in terms of the extent, depth and quality of outreach.

A. EXTENT OF OUTREACH

With few notable exceptions, many DFIs have failed to provide sufficient financial services and have even reduced number of persons receiving loans. The critical role of financial intermediation has in fact often been completely ignored (Adams, 1995; Vogel, 1990). BANRURAL INC., on the contrary, has shown that it is possible to provide credit services to a significant number of clients and to mobilize a large amount of savings (especially small scale savings).

i. Expansion

Unlike some government owned public development banks, BANRURAL S.A. has been able to significantly increase its geographical coverage.. For example, from December 31, 1997 to November, 2002 BANRURAL S.A. has more than tripled its points of service, moving from 71 to 217 points of service in December 2001.; and on to 245 points of service in November, 2002. Currently, BANRURAL S.A. is the largest bank in terms of geographical coverage in Guatemala, and the largest bank in terms of number of points of service in any country in Central America. The mayor growth in points of service has been in the rural areas. At the end of 2001, 81.57% of the 217 points of service were located in non-metropolitan areas.

³ The Index of Sustainability (IS) is equal to the Index of Independence of Explicit Subsidies (IIES) because BANRURAL S.A. does not receive explicit subsidies to operate.

The extensive coverage and the strategic distribution of its points of service has permitted BANRURAL S.A. to provide financial services to different segments of the population. Their clients are not only from the metropolitan area, but also, more importantly, from the interior of the country. Likewise, the extensive coverage and geographical distribution of its points of service have been a key factor for the popularity of the financial services of BANRURAL S.A. and the financial intermediation between the metropolitan area and the non-metropolitan area.

ii. Extent of Credit Services

In monetary terms, the amount of credit provided and the average volume of the portfolio (both in current and in real terms) have had an impressive rate of growth in recent years (Table 3). The number of credits has almost tripled from 1997 (23,200 credits) to 2001 (65,172 credits). Thus a significant number of people have benefited either directly or indirectly the credit services provided by BANRURAL S.A.

Furthermore, the number of beneficiaries has increased more than thirty-five times from 1997 (29,482 benefited people) to 2001 (1,033,076 people).

iii. Extent of the Financial Intermediation Services

Generally, the DFIs have been characterized by low levels of leverage (low access to financial markets), which prevent them from mobilizing sufficient resources to provide credit services (Alfaro, 1999). BANRURAL S.A., in contrast, has recently had success with financial intermediation. The leverage index of BANRURAL has increased from 89.9% in 1997 to 94.5% in 2001. Also the average volume of debt has increased from 498,495.15 thousands of quetzales in 1997 to 3,158,527.00 thousands of quetzales in 2001. This shows that depositors and other financing sources have recently had increased confidence in the institution.

Likewise, the index average volume of debt/average credit portfolio was equal to 2.51 in 2001. This indicates that each quetzal lent by the bank has represented 2.51 quetzales in debt; which means that the debt portfolio completely covers the credit portfolio.

iv. Extent of Deposit Services

Most DFIs have generally to mobilize deposits. Many of them, especially those that are not authorized to mobilize resources from the public in the form of deposits, have therefore obtained resources from channel or intermediate international resources such as development agencies.

BANRURAL S.A., on the contrary, from 1997 to 2001 increased sixfold the average volume of saving accounts; from 408,879.05 thousands of quetzales in 1997 to 2,504,849.45 thousands of quetzales in 2001.

The growth of deposit accounts has increased in both nominal terms and in real terms. This shows that the depositors have had confidence in BANRURAL INC. This is a great

achievement during a period in which the public has lost confidence in the Guatemalan financial system, due to bankruptcy of some financial institutions, and to the problems of liquidity and reliability confronted by others.

The deposits are constituted by current accounts, saving accounts, fixed term accounts, and others. The first three categories have increased significantly in recent years. Until 1997 the savings accounts were the main mean of deposits mobilization. In 1998, the year in which BANRURAL INC. begins to operate, their current accounts begin to increase significantly and replace the saving accounts as the main method of deposit mobilization. In 2001 the number of current accounts mobilized by BANRURAL INC. were more than twice the number of saving accounts. This has permitted BANRURAL INC. to access resources at a lower cost. On the other hand, the number of saving accounts has more than tripled from 1998 to 2001 going from 183,621 accounts in 1998 to 667,778 accounts in 2001.

From the different types of accounts, the current accounts are the one that have had the highest increase during the last two years. These have more than doubled from 1999 to 2001. Likewise, the average deposit volume is almost two times the average credits volume, indicating that per each quetzal lent there is almost two quetzales in deposits.

This shows that the portfolio of deposits has been sufficiently extensive to finance the portfolio of credits, which is a good indicator of the extensive outreach of BANRURAL INC. in its financial intermediation services.

On the other hand, during recent years deposits constitute more than seventy-nine percent of BANRURAL INC.'s passive income. This shows that the bank has a great capacity to mobilize deposits, and an extensive outreach in its financial intermediation services, variables in which other similar banks have had poor performance.

B. DEPTH OF THE OUTREACH

Generally, many have criticized DFIs because of their incapacity to provide access to financial services to a significant quantity of poor clients (Adams, 1995). Many DFIs, mainly Public Banks of Development or Agricultural Promotion, have been characterized for concentrating their credits on a reduced number of economically influential and political clients, that would be better attended by other institutions in the formal financial system (Vogel, 1990). The poor, especially in rural areas, have been forgotten and have not had access to financial services of the formal financial system.

In contrast to many DFIs, especially Public Banks of Development, that have failed to comply with their mission to give access to financial services to clients of scarce resources, BANRURAL INC. has had a great deal of success in providing financial services to a large quantity of low income people in both the non-metropolitan and metropolitan areas of Guatemala.

While eighty-nine percent of the credits of the banking system concentrates on the metropolitan area, in BANRURAL INC. the 88.71% of its credits concentrated on the non-metropolitan area. Thus BANRURAL INC. is helping to diminish the “urban bias”.

Regarding the deposits of BANRURAL INC. 52.8% of the total volume is obtained from metropolitan areas and 47.2% from non-metropolitan areas.

This indicates that BANRURAL INC. is getting resources from metropolitan areas and channeling them to non-metropolitan areas, mainly to rural areas where the majority of poor people of Guatemala live.

Furthermore most, 75.78%, of all credit has been offered for an amount equal to or smaller than 20,000 quetzales (approximately US\$ 2,596.95) and 28.86% of credit has been granted for an amount equal to or smaller than 5,000 quetzales (approximately US\$ 649.24).

This indicates that BANRURAL INC. is giving access to credit services to people of scarce economic resources given that there is a high correlation between small amounts of credit and poor people.

Nevertheless, from 1997 to 2000 the average amount of loans and the relationship between the average amount of loans and GDP per capita increased from 7,593.50 quetzales (US\$ 985.00) to 30,227.08 quetzales (US\$ 3,924.91) and from 0.74 to 2.34 respectively. Then in 2001 the average amount of the loans and the relationship between average loan and GDP per capita decreased to 28,336.71 quetzales (US\$ 3,679.45) and 2.05 respectively.

This indicates that, on one hand, BANRURAL INC. has lost the depth of its outreach yet, on the other hand, that the bank has adapted the size of its credits to the needs of its clients (offering greater totals according to the needs of the clients). The improved performance of BANRURAL INC. in terms of depth during 2001 might be because it strengthened the Micro-business program.

The average amount of deposits decreased from 4,751.00 quetzales in 1999 to 3,751.00 quetzales in 2001. This indicates that BANRURAL INC. is improving the depth of its outreach in the mobilization of deposits; that is to say, it is giving savings services access to people. This confirms the fact that the relationship between average deposits and GDP per capita is far less than 1 (0.33 in 2001) and has had a decreasing tendency in recent years.

The previous data show that BANRURAL INC. has been accomplishing its social function of giving access to financial services to people of scarce economic resources, people that otherwise probably wouldn't have access to financial services in the formal financial system. Thus BANRURAL INC. may be catalogued as an institution with a deep outreach.

C. QUALITY OF THE OUTREACH

Public development banks have often been criticized for having a low quality of services. However,, the following evidence shows that BANRURAL INC. has had good performance in terms of quality of the financial services offered to its clients.

i. Growth of the Volume of Services Offered

Generally, DFIs have had small credit portfolio growth in real terms. This small growth may indicate that the services offered by these institutions are of little relevance to their clients (do not respond to their needs) and consequently are little appreciated by them (Alfaro, 1999). Likewise, the small growth can reflect a low quality of the financial services offered by the institution: “when a client is badly attended, he will not come back and won’t recommend the bank to others (the snowball effect)” (Alfaro, 1999, p. 93). In contrast, BANRURAL INC. has registered significant rates of growth in its portfolio of credits, average liabilities, and average of deposits.

The high growth in real terms registered in the average volume of credits, suggests that the credit services by BANRURAL INC. have had a high demand due to their good quality, generating appreciation by their clients.

Likewise, the real rates of growth registered in the volume of liabilities also suggests that the creditors of BANRURAL (mainly the depositors) not only have trusted in BANRURAL INC., but are satisfied with the quality of the financial services of intermediation offered by the institution.

Similarly, the real rates of growth in the volume of deposits offers evidence that BANRURAL INC.’s services have had a great demand. It can be inferred that this big demand is itself due to the fact that the service of saving accounts offered by BANRURAL INC. are prominent, of high quality, and appreciated by the depositors.

In conclusion, BANRURAL INC. has had positive growth in real terms in its services of credit and collecting of resources—mainly deposits. This growth is also good evidence that the services offered by BANRURAL INC. are prominent and of good quality.

ii. The Effective Rates of Interest

Sometimes DFIs register positive growth in the credit placements volume. Nevertheless, this growth is due to the fact that the active rate of interest charged is subsidized. The demand for credit, as happens with the majority of goods and services, increases when the price decreases (Alfaro, 1999). Likewise, sometimes DFIs register positive growth in the volume of resources collected. Nevertheless, the funds come from mandatory savings or concessionary loans, which are generally temporary and do not assure the institution a continuous source of funds.

Therefore, to evaluate the quality of the financial services of the DFIs it does not suffice to identify the growth of their services in real terms. It is necessary to carry out a second test: the test of the prices (Alfaro, 1999).

The growth in real terms in the volume of credits of BANRURAL INC. is not due to the fact that this institution is charging subsidized interest rates but to the fact that is charging competitive and effective interest rates—the effective active rate of interest charged by BANRURAL INC. is bellow the average market rate. The effective rate of interest charged by BANRURAL INC. has always been lower than the average market rate of interest and has moved according to it.

Although the effective active rate of interest charged by BANRURAL INC. increased from 1998 to 2000, it continued to be quite competitive for its clients; given that it was maintained bellow the market rate. In 2001 the active rate charged by BANRURAL INC. decreased to 17.24%.

Likewise, the growth, in real terms, in the volume of liabilities and deposits is not due to concessionary loans or mandatory deposits, but to the extensive geographical coverage of the bank and to the strategic locating of many of its points of service, especially in the non-metropolitan area, and in the rural area where almost no competition exists from other banks. This has permitted the bank to collect resources to a passive effective rate of interest lower than the passive market rate, and to place the funds to an active rate bellow the average market rate. Although so far this financial strategy has been very effective for BANRURAL INC., in the future it might be very vulnerable to the increment of competition of other banks in the interior and in the rural area of the country. This is suggested by the fact that in 2001 the difference between the passive market rate of interest and the passive rate of interest paid by BANRURAL INC. decreased as a result of the reduction of the passive market rate, and the increment of the passive rate of interest paid by BANRURAL INC. with the objective to make its instruments of collecting more competitive.

The combination of the active rate of interest charged and the passive rate of interest—both in effective terms—paid by BANRURAL INC. has permitted the institution to generate a positive financial margin to cover its administrative costs and to generate profits. The financial margin after reaching its lowest point in 1998 (8.07%), increased during 1999 and 2000 to end up at 11.75% in 2000. Then the margin decreased again in 2001 to 9.64% as a result of the reduction in the active rate of interest and the increase in the passive rate of interest paid by the bank. This indicates that the products offered by BANRURAL INC. improved their competitiveness in terms of price during the last year (loans and deposits with more competitive rates of interest).

iii. The Recovery of Loans

To evaluate the quality of credit services of a bank, it is not enough for the bank to have positive growth in their credits; because the positive growth might be due to the fact that it is charging subsidized rates of interest (Alfaro, 1999). A DFI may be complying with

the conditions mentioned in the previous paragraph. Nevertheless, if it is registering high losses due to loan delinquency then the quality of its credit services may be questionable. This positive growth may be due to a bad selection of its clients, or to “adverse selection” if the bank is charging interest rates that are too high. Therefore, it is necessary to evaluate the institution in terms of the recovery of its loans (Alfaro, 1999).

In contrast to some DFIs and to the majority of public banks of development that show high levels of losses by non-recovered credits, BANRURAL INC. has had good performance in its credit recovery. BANRURAL INC. has managed to reduce its rate of losses in the concept of non-recovered credits of 3.37% in 1997 (year base) to 1.18% in 2001. This implies that BANRURAL INC. increased the rate of recovery of its credits from 96.63% in 1997 to 98.82% in the 2001.

The rate of losses due to non-recovered credits of BANRURAL INC. during the last three years are less than three to four percent, which is considered an adequate parameter among similar institutions.

Likewise, the percentage of matured credits and defaulted credits of BANRURAL INC. has also decreased significantly during recent years. While in 1997 the percentage of matured credits and defaulted credits was 11.16, in 2000 this percentage was only 2.49%. These indicators show that BANRURAL INC. does not only possess an effective capacity to place its credits at unsubsidized interest rates, but also possesses the capacity to recover them.

The high volume of placements, the rates of interest that are not subsidized, and the high recovery rate are good indicators of the reliability and quality of BANRURAL INC.’s credit services.

iv. Operating Expenses volume

A DFI may have a positive real growth in their credits, may charge interest rates that are not subsidized, and may be recovering its credits; nevertheless, if this is not efficient, the quality of its services is put into doubt (Alfaro, 1999). For a financial institution to be self-sustainable, it should charge a rate of interest that covers its costs (including the capital loss caused by inflation). Consequently, when an institution is not efficient it transfers the costs of its inefficiency to its clients through the interest rate (when it charges an interest rate that covers all its costs) (Alfaro, 1999).

Generally, the DFIs that have been designed to benefit small producers, often incurring high costs of operation per dollar lent (Yaron, 1992a; 1992b). The high costs of operation have been one of the factors that has not permitted many DFIs to be competitive and to achieve high levels of independent subsidies (Alfaro, 1999). In order for an institution to be profitable and self-sustainable it should be efficient in the provision of its services. In the case of BANRURAL INC. its administrative expenses have gone up in recent years, due the expansion and growth of the bank.

Nevertheless, the administrative expensive have decreased and have diluted as the bank increased both the volume of credits and the volume of deposits as indicated by the administrative expenses to average of volume of credits ratio, and administrative expenses/volume of deposits ratio.

This trend is mostly due to the existence of “economies of scale” related with the geographical expansion. The bank has reached a greater number of clients through the diversification of its financial services. This has also been the result of the organization’s “learning curve”.

The “administrative expenses to earning from other services” ratio has increased, which may signal that the efficiency in the installment of these services can be improved.

On the other hand the number of employees by point of service has had a decreasing tendency. This went from 12.45 people by point of service in 1997 (12/31/1997) to 8.57 people by point of service in the 2001 (12/31/2001). This is a clear indicator of the bank’s improving efficiency.

Likewise, the number of employees of “front office” has grown faster than the number of employees of “back office”. This shows that the bank is putting emphasis on improving costumer service, and in keeping its expenses of “overhead” at a relatively low level. Finally, the relationship between “Front Office” employees to “Back Office” employees went from 1.11 on 12/31/1997 to 2.90 on 12/31/20001.

This reaffirms that BANRURAL INC. is putting emphasis on improving the attention paid to clients and taking care of its “overhead” expenses. Nevertheless, it should be observed that this relationship decreased from 4.07 (its highest level) on 12/31/99 to 2.90 on12/31/01.

v. Incomes from Other Services

In the past many DFIs, in addition to their financial services or as a complement of these services, have lent other financial or non financial services. Many times these services have been provided at a subsidized price, which at times does not cover the variable costs associated with the provision of the services. This method of operation, instead of helping to improve the levels of profitability and self-sustainability, has damaged the performance of the institution.

In contrast, during its first four years of operations BANRURAL INC. increased its income from other services fivefold. It went from 21,886.10 thousands of quetzales in 1997 to 102,064.80 thousands of quetzales in 2001.

Likewise, BANRURAL INC. has registered impressive growth in its earnings from operations in foreign currency, which increased twenty-five times during the first four years of operation.

Although the earnings from other services are important for BANRURAL INC., the ratio “earnings from other services to total earnings” has had an increasing tendency during the last three years, which indicates the significance that earnings from other services have had lately.

The operations in foreign currency have also had another benefit for BANRURAL INC. The bank has gained new clients, especially terms of deposit accounts.

The incomes from other services have contributed to an increase in BANRURAL INC’s profit volume and value as well as itsself-sustainability. The high growth registered in the earnings from other services indicates that the complementary services provided by BANRURAL INC. are prominent and appreciated by their clients.

iv. The Maintenance of the Value of the Capital

In recent years some banks have gone into bankruptcy in Central America These organizations have disappeared due to liquidity and reliability problems. At the time of the liquidation it was observed that these companies were not capable of maintaining the value of their capital in real terms. Many, in fact, were closed with negative capital.

Two factors have a direct negative effect on the capital of a bankrupt institution: first, that the institution is not profitable (the generation of losses) and second, inflation. These two factors diminish the capital of a bankrupt organization (Alfaro, 1999).

BANRURAL INC. on the contrary has shown a capacity to maintain and increase the real value of its capital. Every year BANRURAL INC. has registered a positive growth in real terms in its capital. It increased from 51,037.11 thousands of quetzales in 1997 to 167,988.03 thousands of quetzales in 2001. This increase was the result of “fresh resources” provided by their members (especially by members of the private sector during the last two years) and of the accumulation of the profits generated by the bank during its first years of operation.

V. CONCLUSIONS

Currently there is a great deal of skepticism among scholars and “practitioners” with relation to the processes of restructuring and modernization of the public banks of development. This skepticism is in part due to results of these processes, which have not been very flattering. These results have been due to the fact that the capital structure of banks has not changed. Therefore, the state continues to be the only owner of the financial institutions. Consequently, many good things that have been done “with the right hand” as a part of the restructuring and modernizing processes have been erased “with the left elbow” with political decisions such as debt forgiveness.

BANRURAL INC., in contrast, allowed private groups and civil society groups to participate in the structure of capital and the administrative board. This undoubtedly has

forced the institution to be disciplined and has permitted the bank to be directed with a business vision obtaining an equilibrium between profit and social objectives. Consequently, the results obtained by BANRURAL INC. during its first four years of operations are impressive and rarely seen in institutions of the same nature.

According to the evidence, BANRURAL INC. has had a successful performance during its first four years of operation in terms of profit value, self-sustainability, and outreach.

BANRURAL INC. has been a profitable banking institution (the third most profitable bank of the Guatemalan banking system in terms of performance on investment) and self-sustainability (independence of explicit subsidies). Likewise, BANRURAL INC. has shown a great capacity to serve a significant quantity of clients (extensive outreach), the majority of whom have been persons of low economic resources (deep outreach).

On the other hand, BANRURAL INC. has had a high growth in its volume of business (financial services of placement, collecting and other services). This growth itself has not been due to charging subsidized interest rates, concessionary funds, by mobilizing deposits on a mandatory basis, nor by providing its services on a free basis. This indicates that the financial services of placement, collection and other services provided by BANRURAL INC. are prominent, of good quality and appreciated by their clients (outreach of high quality).

On the other hand, the operating costs of BANRURAL INC. have increased in recent years as a result of the expansion and growth process. Nevertheless, as a result of the “economies of scale” and the “curve of learning”, the administrative costs have dissipated as the bank diversifies its services.

BANRURAL INC. has also had an excellent performance in the generation of revenues from other services, especially in the generation of revenues from operations in foreign currency. These revenues, the result of the “economies of scope”, have contributed to the profit value and self-sustainability of the bank.

Finally, BANRURAL INC., in contrast to many banks that have broken recently in many countries and to other banks that are having serious performance problems, has been very skillful covering their capital from inflation while also increasing it. This has been product of the provision of fresh resources on the part of its associates (especially from associates of the private sector) and of the accumulation of the profits generated during recent years.

The success of BANRURAL INC. depends on multiple factors. Among the key factors of the success of BANRURAL INC. are: the leadership, the clear definition of the vision and the mission of the bank, the definition of values, the diversification of the line of products and services, the diversification of the segments of market, the extensive coverage and the geographical expansion, the differentiation in the financial focus of intermediation, the form in which the capital structure is organized, and the integration of the Administrative Board, the Program of Micro, Small and Medium Business, the

Figure No. 1
PERFORMANCE EVALUATION MODEL

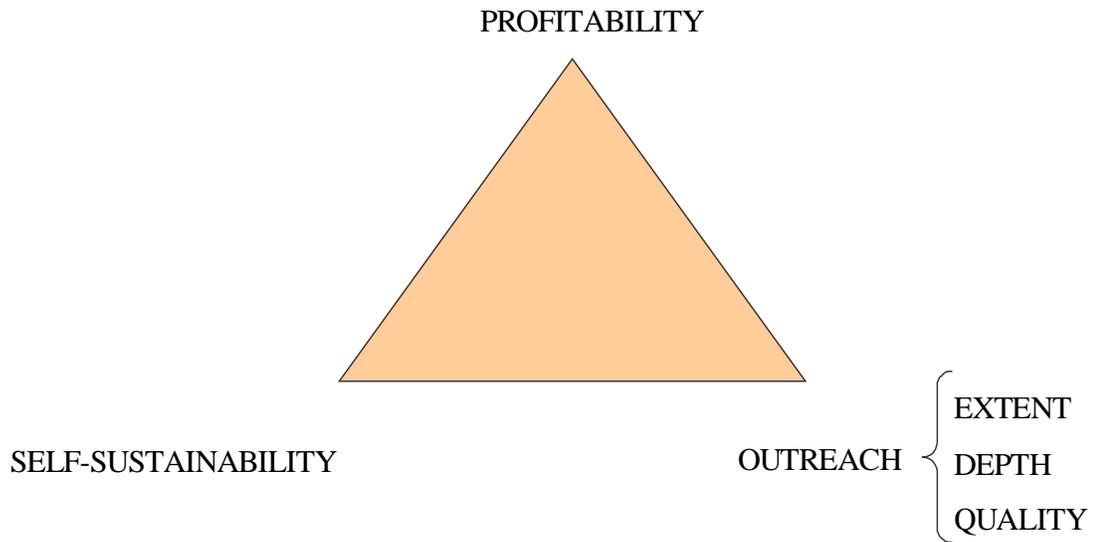
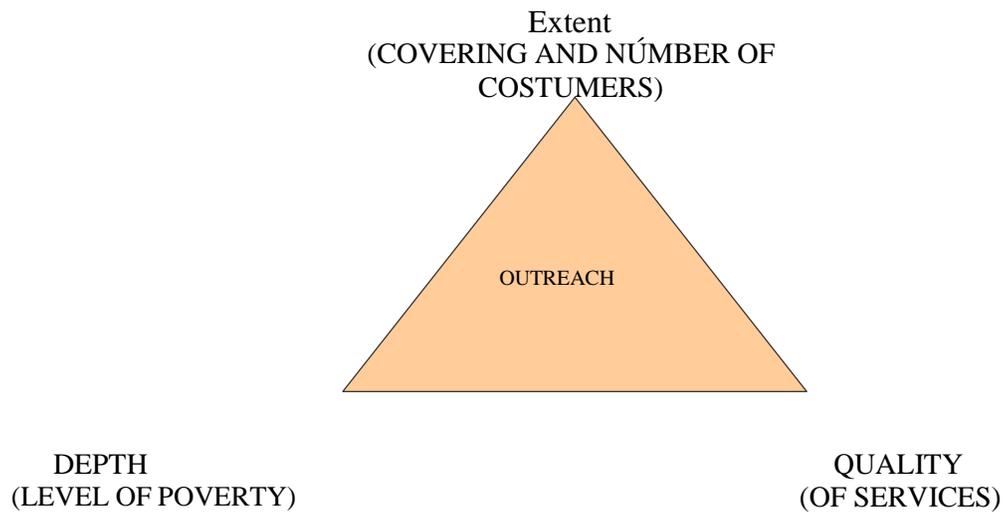
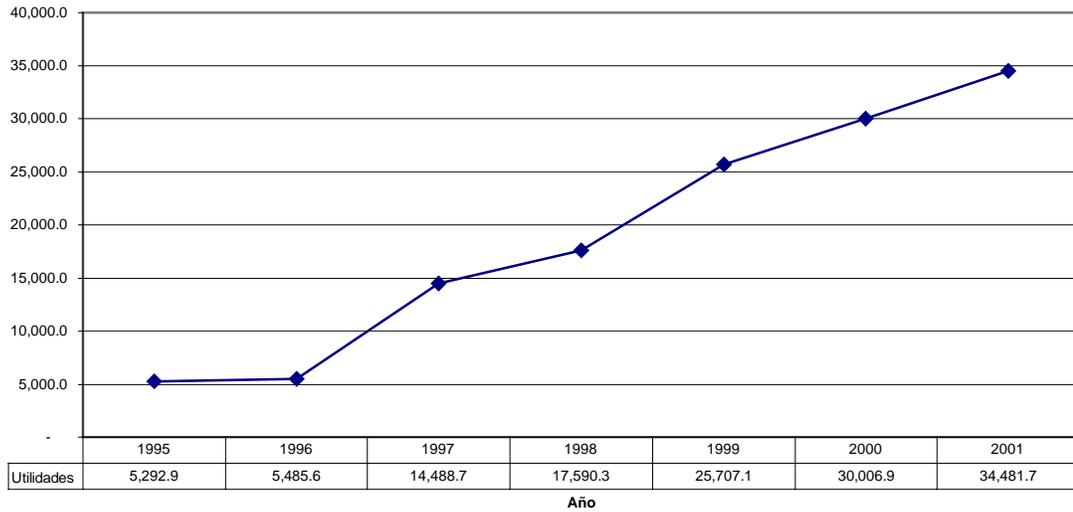


Figure No. 2
Outreach



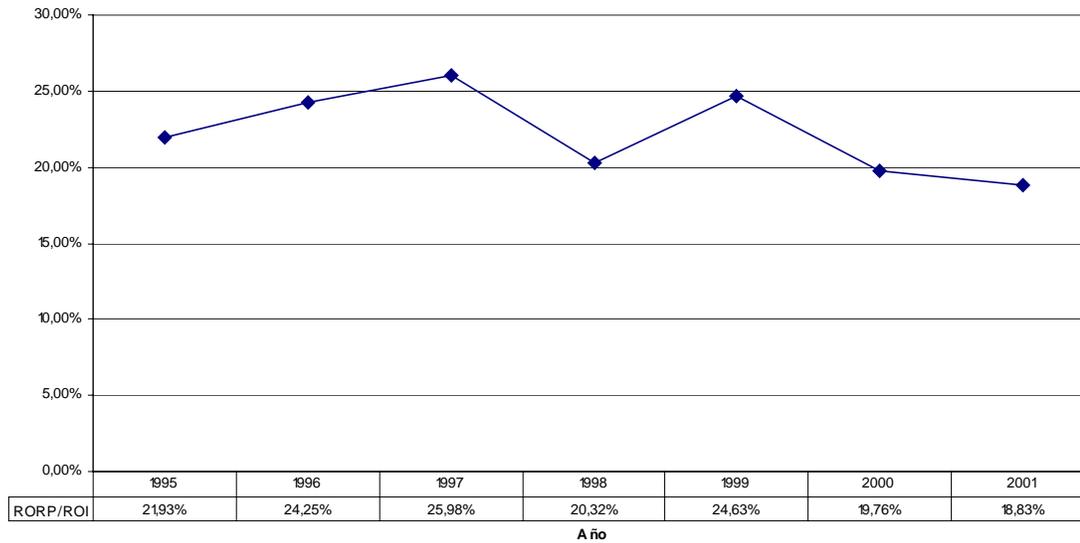
Graph 1

**BANRURAL S.A.
Profits
(In thousand Quetzales)**



Graph 2

**BANRURAL S.A.
RORP/ROI**



Graph 3

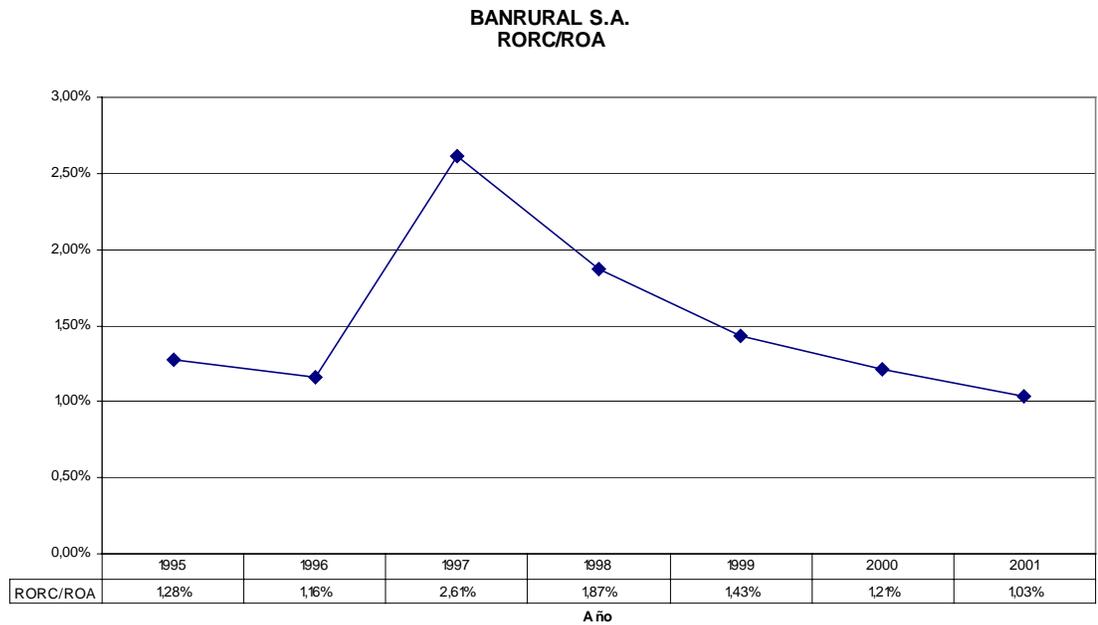


Table 1

**Guatemalan Banking System
ROI the ten most profitable banks
Year: 2001**

BANCO	ROI %
Agromercantil S.A.	32.26
Reformador S.A.	24.16
BANRURAL S.A.	18.83
Del Café S.A.	17.39
Industrial S.A.	15.97
De los Trabajadores	14.94
Uno S.A.	10.46
G&T Continental	9.85
De Occidente S.A.	9.53
De Exportaciones	8.74

Source: Estimations of the author based on information from the Guatemalan Central Bank.